

RESOLUTION NO. 2021-06-25R

A RESOLUTION OF THE CITY OF AMERICAN FORK FOR THE PURPOSE OF
APPROVING A REVISED FUND BALANCE POLICY

WHEREAS, the City Council recognizes the need to maintain current fiscal policies; and

WHEREAS, formal adoption of fiscal policies helps maintain stability, continuity, limitations, bond ratings, long-term strategic thinking, risk management, and overall compliance; and

WHEREAS, the City Council wishes to define certain practices and procedures as they relate to fund balances; and

WHEREAS, City Staff has completed a review of the policy and revised the policy to comply with Utah State Code and Government Finance Officers Association recommended practices, and in accordance with Government Accounting Standards Board.


NOW, THEREFORE BE IT RESOLVED, that the attached Fund Balance Policy be hereby adopted as written to supersede previous fund balance policies.

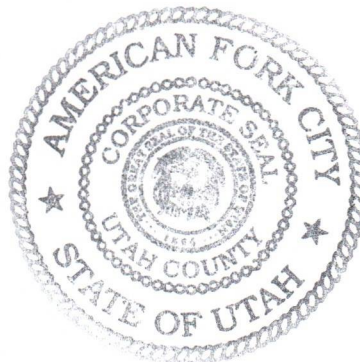
PASSED AND SIGNED THIS 22nd DAY OF JUNE, 2021.

APPROVED:


Bradley J. Frost, Mayor

ATTEST:


Terilyn Lurker, City Recorder



AMERICAN FORK CITY FUND BALANCE POLICY FOR THE GENERAL FUND

Purpose

This policy strives to ensure the City maintains adequate fund balances and reserves in the General Fund in order to:

- Provide sufficient cash flow and working capital for daily financial needs.
- Secure and maintain investment grade bond ratings.
- Offset significant economic downturns or revenue shortfalls.
- Provide funds for unforeseen expenditures related to emergencies.

Background

Fund Balance is the difference between assets and liabilities reported in governmental funds. It is used to measure the net financial resources available to finance future expenditures. The Governmental Accounting Standards Board specifies the classification of fund balance. The components include: 1) non-spendable, 2) restricted, 3) committed, 4) assigned, and 5) unassigned. A definition of these components can be found below. These classifications are currently only used in the Governmental Fund Types.

Municipalities may accumulate fund balances in any fund. However, Utah Code 10-6-116 states the General Fund balance amount must be within the following limits: 5% of total revenues must be maintained as a minimum fund balance, and the accumulation shall not exceed 35% of the total estimated revenue of the General Fund. The fund balance percentage will be calculated using the Utah State Auditors guidelines. The fund balance policy focuses on the assigned and unassigned components of fund balance.

Definitions

GASB 54 provides definitions of fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

- *Nonspendable fund balance*—amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).
- *Restricted fund balance*—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- *Committed fund balance*—amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- *Assigned fund balance*—amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- *Unassigned fund balance*—amounts that are available for any purpose; these amounts are reported only in the general fund.

Fund Balance Limits and Conditions for Use of Reserves

1. The City will seek to achieve recommended maximum allowable fund balances in the General Fund by increasing fund balance to 35% of budgeted revenues. Fund balance shall be considered unassigned and will be increased in years when revenues exceed expenditures, or when the City has excess one-time revenues, until the maximum threshold is met.
2. The City's unassigned fund balance will be maintained to provide the City with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing.
3. General Fund balance in excess of 35% should be used to a) fund one-time expenditures in the current year, b) transfer to a capital project fund to be used for capital expenditures, or c) prepay existing City debt.
4. The use of General Fund Balance reserves shall be limited to unanticipated, non-recurring needs, or anticipated future obligations. Fund balances shall not be used for normal or recurring annual operating expenditures.
5. The City Administrator is authorized to make recommendations to the City Council for use of General Fund Balance reserves. A majority vote of the City Council will be required to allocate reserves.
6. In the event of a pronounced fiscal emergency or other such global purpose as to protect the long-term fiscal security of the City, there may be a need to appropriate unassigned fund balance below the 35% policy level. In such circumstances, the City will:
 - a. Take measures necessary to prevent its use in the following fiscal year by increasing fees or taxes and/or decreasing expenditures.
 - b. Adopt a plan to restore the available fund balances to the policy level within 36 months from the date of the appropriation. If restoration cannot be accomplished within such time period without severe hardship to the City, then the City Council will establish a different but appropriate time period.
7. The annual budgets for all City funds will be structurally balanced throughout the budget process. Recurring revenue will equal or exceed recurring expenditures in both the Proposed and Adopted Budgets. If a structural imbalance occurs, a plan will be developed and implemented to bring the budget back into balance.